



# Health Insurance (prudential standard) determination No. 1 of 2015

## Prudential Standard HPS 001 Definitions

### *Private Health Insurance (Prudential Supervision) Act 2015*

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I, Ian Laughlin, delegate of APRA under subsection ~~91~~<sup>92</sup>(1) of the *Private Health Insurance (Prudential Supervision) Act 2015* (the Act) DETERMINE *Prudential Standard HPS 001 Definitions*, in the form set out in the Schedule, which applies to all private health insurers.

This instrument takes effect on the day the *Private Health Insurance (Prudential Supervision) Act 2015* commences~~on 1 July 2015~~.

Dated: [date]

[To be signed]

Ian Laughlin  
Deputy Chair

## Interpretation

In this Determination:

**APRA** means the Australian Prudential Regulation Authority.

**Private health insurer** has the meaning given in section 4 of the Act.

## **Schedule**

*Prudential Standard HPS 001 Definitions* comprises the 6 pages commencing on the following page.



# **Prudential Standard HPS 001**

## **Definitions**

### **Objectives and key requirements of this Prudential Standard**

This Prudential Standard defines key terms referred to in other prudential standards applicable to private health insurers. All prudential standards applicable to private health insurers must be read in conjunction with this Prudential Standard.

## Authority

1. This Prudential Standard is made under subsection 92~~4~~(1) of the *Private Health Insurance (Prudential Supervision) Act 2015* (the Act).

## Application

2. This Prudential Standard takes effect on the day the *Private Health Insurance (Prudential Supervision) Act 2015* commences~~on 1 July 2015~~.
3. Unless the contrary intention appears, definitions in this Prudential Standard apply to all prudential standards made under subsection 92~~4~~(1) of the Act (collectively 'HI Prudential Standards').

## Definitions

4. Key terms in the HI Prudential Standards are defined as follows:

**Act** means the *Private Health Insurance (Prudential Supervision) Act 2015*.

**Appointed actuary** has the same meaning as in the Act.

**Approved loss absorbing subordinated debt of a health benefits fund** means a security or other debt instrument, which has been approved by APRA prior to the time of issue. APRA must consider the quantum of the proposed issue and the timing for draw down, in making its decision on approval. APRA must consider that Approved loss absorbing subordinated debt must be created by a debt instrument or agreement which meets and continues to meet the following terms and conditions:

- (a) it must comprise a mechanism which specifies the conditions and process for loss absorption, through diminution of value, conversion or other means, of the instrument or agreement on a going concern basis, such that prior to non-compliance with *Prudential Standard HPS 110 Capital Adequacy* the value of the debt would be reduced to the relevant extent, and if necessary exhausted; and
- (b) it must have a minimum term of 10 years from the commencement of the loan; and
- (c) there must be no circumstances where repayment may be accelerated or called at the lender's or any third party's option; and
- (d) interest payments must not be payable where the payment of these would cause the fund to breach the requirements of *Prudential Standard HPS 110 Capital Adequacy*; and
- (e) interest payment obligations may be capitalised and interest may be charged on capitalised interest; and

- (f) capital repayments must not be made where repayment would cause the fund to breach the requirements of *Prudential Standard HPS 110 Capital Adequacy*; and
- (g) delayed capital repayments may be subject to continuing interest charges on the interest charge and repayment conditions specified in this paragraph.

Approved loss absorbing subordinated debt of a health benefits fund approved by PHIAC for the purposes of Rule 3A of the *Private Health Insurance (Health Benefits Fund Administration) Rules 2007* as it was in effect between 1 April 2014 and 30 June 2015 is taken to have been approved by APRA for the purposes of this Prudential Standard.

**ASIC** means the Australian Securities and Investments Commission.

**Assets** has the same meaning as in the Act.

**Associates** has the same meaning as in clause 4 in Schedule 1 of the *Financial Sector (Shareholdings) Act 1998*.

**Australian Accounting Standards** means the accounting standards issued by the Australian Accounting Standards Board.

**Authorised deposit-taking institution** means a body corporate in relation to which an authority under subsection 9(3) of the *Banking Act 1959* is in force.

**Billed risk equalisation special account liability** means the amount of risk equalisation special account payments, on the relevant day, for which an invoice from APRA has been received by the insurer but that have not yet been paid by the insurer.

**Board** means the board of directors of a private health insurer or, if the insurer is not a company within the meaning of the *Corporations Act 2001*, the governing body of the insurer.

**Cash** has the meaning given in *Australian Accounting Standards Standard 107.6*.

**Central estimate** means an estimate of the mean of the range of possible outcomes of any calculation required under either *Prudential Standard HPS 100 Solvency Standard* or *Prudential Standard HPS 110 Capital Adequacy*.

**Chief executive officer** has the same meaning as in the Act.

**Company** means:

- (a) a company within the meaning of the *Corporations Act 2001*; or
- (b) a constitutional corporation.

**Complying health insurance product** has the same meaning as in the Act.

**Constructive obligation** has the meaning given in the liability adequacy test in *Australian Accounting Standard Board Standard 137*.

**Constitutional corporation** has the same meaning as in the Act.

**Corporate governance** means a system by which an insurer is directed and controlled.

**Corporate group** means each body corporate that is a related body corporate within the meaning given by section 50 of the *Corporations Act 2001*.

**Corporations legislation** has the meaning given by section 9 of the *Corporations Act 2001*.

**Director** has the same meaning as in the Act.

**Executive director**, for a private health insurer, means a director who is:

- (a) a member of management of the insurer; and
- (b) an employee of the insurer.

**Financial condition report** means a report on the financial condition of a private health insurer, including a report on the financial condition of each health benefits fund conducted by the insurer.

**Financial interdependency** in relation to a group of related counterparties, means a circumstance in which the financial soundness of one counterparty in the group may affect the financial soundness of another counterparty in the group.

**Group of related counterparties** means two or more counterparties which are related parties, or are linked by either of the following:

- (a) financial interdependency; or
- (b) any other connection or relationship that might expose the counterparties in the group to a single risk.

**Health benefits fund** has the same meaning as in the Act.

**Health business revenue estimate** of a health benefits fund, is its premium income estimate plus a central estimate of the gross revenue that it will earn in relation to its health related business in the 12 months after the relevant day, less any premium ceded to reinsurers in relation to health-related business within that 12 month period.

**Health-related business** has the same meaning as in the Act.

**New product** means a product that:

- (a) has not previously been offered by a private health insurer; and
- (b) contains characteristics that are different from other products offered by the insurer.

**Non-executive director** means a director who is not an executive director.

**Officer** has the same meaning as in the Act.

**PHIAC** means the Private Health Insurance Administration Council established under the *National Health Act 1953*.

**Policy holder** has the same meaning as in the Act.

**Premium income estimate** of a health benefits fund, is the central estimate of the amount of health insurance business premium income that it will earn in the 12 months after the relevant day, where the premium increase assumption is the lesser of:

- (a) the central estimate of the amount of revenue the private health insurer's health benefits fund will earn in the 12 months after the relevant day; and
- (b) the amount determined in accordance with the methodology published by APRA, as amended from time to time.

**Previously approved subordinated debt** of a health benefits fund, means debt of a kind previously approved by PHIAC as subordinated debt, for the purposes of the *solvency standard* or *capital adequacy standard* established by the *Private Health Insurance (Health Benefits Fund Administration) Rules 2007* (made under the *Private Health Insurance Act 2007*), as in force as immediately prior to 31 March 2014.

**Private health insurer** has the same meaning as in the Act.

**Probability of adequacy** means the percentile required to meet individual elements of either the *Prudential Standard HPS 100 Solvency Standard* or *Prudential Standard HPS 110 Capital Adequacy*.

**Referable** has the same meaning as in the Act.

**Related party** has the meaning given by the *Australian Accounting Standards Board Standard 124*.

**Relevant day** means the day on which the calculation is based for the purposes of assessing compliance with the *Prudential Standard HPS 100 Solvency Standard* or *Prudential Standard HPS 110 Capital Adequacy*, as the case may be.

**Senior management responsibilities** for the purpose of the definition of ‘officer’ in section 4 of the Act, means the responsibilities of making, or participating in making, decisions that affect the whole, or a substantial part, of the business of the private health insurer.

**Single equivalent units (SEUs)** for a policy – if a policy falls into one of the categories of policies specified below, the single equivalent unit for the policy is the number shown next to the category:

- (a) a hospital policy under which only one person is insured – 1;
- (b) a hospital policy under which 2 adults are insured (and no-one else) – 2;
- (c) a hospital policy under which 2 or more people are insured, none of whom is an adult – 1;
- (d) a hospital policy under which 2 or more people are insured, only one of whom is an adult – 1;
- (e) a hospital policy under which 3 or more people are insured, only 2 of whom are adults – 2;
- (f) a hospital policy under which 3 or more people are insured, at least 3 of whom are adults – 2.

**Size margin** of a health benefits fund, is the lesser of:

- (a) the margin based on the number of SEUs of the health benefits fund as calculated by the following formula:

$$0.75 \times (\text{SEUs})^{-0.16}; \text{ and}$$

- (b) 0.25.

**Subordinated debt** means the sum of any previously approved subordinated debt and any approved loss absorbing subordinated debt.

**Substantial shareholder** means a person with a substantial holding within the meaning given by section 9 of the *Corporations Act 2001*.

**Terminating management** has the same meaning as in the Act.